



The National Council of Wool Selling Brokers of Australia Inc

NEWSLETTER

Unit 9
42-46 Vella Drive
Sunshine West Vic 3020

Phone: 03 9311 0152
Fax: 03 9311 0138
E-mail: newsba@woolindustries.org
Twitter : @woolbrokersaus

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From the desk of Chris Wilcox, Executive Director

- Australian EMI heads towards 1900
- The mood in China
- Australian wool exports lift in March
- IWTO Congress in Hong Kong
- Upcoming events



It was another week of records in the **Australian wool market** this week as the supercycle is showing no signs of slowing. Buyers competed strongly for all Merino wools, with 19 micron and broader wool faring best. Crossbred wool prices were generally solid, although the broader end eased back a bit. The **Eastern Market Indicator (EMI)** lifted by 55c/kg to finish the week at 1891 c/kg, smashing the previous record and closing in on 1900 c/kg. A number of the Merino Micron Price Guides are also at record levels. According to my databases (which go back to 1976), the 19.5 MPG, 21 MPG, 22MPG, 23 MPG and 24 MPG are all at the highest ever. Other Merino MPGs are at the 99th percentile. The lift in prices was aided by a lower A\$ and low offerings for this week and for the next few weeks. There was just under 38,000 bales offered for the week, with a similar volume rostered for next week and then under 35,000 rostered in the following two weeks. While low, it is typical for this time of the year as the season winds down and is in line with year earlier levels.

The A\$ fell by 0.44 UScents to 74.8 UScents and the EMI lifted by 33 UScents to 1414 USc/kg. The A\$ was again steady against the Euro at 62.9 €cents and was stronger against the Renminbi. The EMI increased by 36 €cents to 1189 €cents/kg and by 188 RMB to 8980 RMB/kg.

I am in **China** this week, visiting a number of the major mills through Jiangsu and Zhejiang provinces. I was very interested in the mood amongst the mills about current price levels, demand from their clients and the reaction of the industry to the current Merino wool price levels. The mills all seem to be coping well with the sustained high prices and continued increases. In part this is because the duration of the increase has been so extended (the supercycle is now almost 110 weeks long). It has meant that mills and their customers have been able to manage the increase, rather than dealing with erratic swings up and down which create uncertainty.

For some mills, it has meant that margins are being squeezed, in part because some retail brands do not wish to change their price points at retail. One example is the Japanese fast-fashion brand Uniqlo which has had Merino sweaters at the same price for the past 3 Autumn/Winter seasons and will probably have the same price point in the Northern Hemisphere 2018 Autumn/Winter season (you can see the Merino sweater product now in Uniqlo stores in Melbourne, Sydney and Brisbane). With retail price points remaining steady but higher retail material prices, margins of both Uniqlo and their suppliers are tighter.

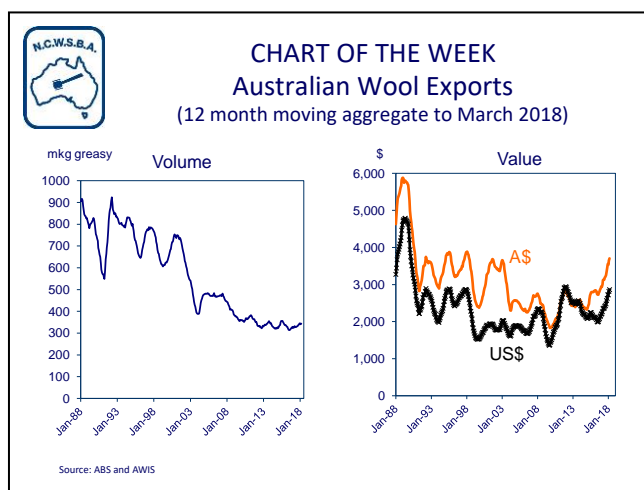
In some cases there has been some substitution out of wool to other fibres, but this seems to be less than I expected. One feature amongst the mills (notably the knitting yarn spinners) is the growing importance of yarn for the circular knit sector, which produces next-to-skin garments for the active/leisurewear market. This is growing rapidly and is likely to overtake flatbed knitting yarn in the next few years. No doubt this growing demand is helping demand for wool in general. [Note that this sector typically uses longer staple wool than flat-bed knitting yarn.] Over all, the mood among the Chinese mills that I have met is relatively positive. Their key concern is the level of supply of Merino wool from Australia. They are concerned about the predicted decline in production in 2018/19. They thought production would increase because of the high prices. Once we explained the situation, they understood that the dry seasonal conditions are holding back any production increase.

The latest data from the Australian Bureau of Statistics on **Australia's wool exports** shows that Australian wool exports fell in March by 3% in volume terms but increased by 16% in value terms compared with March 2017. The decline in volume was driven by a 6% drop in exports to China. There was also a fall in exports to South Korea and Taiwan. The volume of exports to other countries increased in March. While the volume change was variable, the value of exports to all of the major destinations increased. For the 2017/18 season to March, Australia's exports were 7% higher by volume and 25% higher in value terms than for the same nine months of 2016/17. The table below provides the % change in exports to the major destinations for March and for the nine months of the 2017/18 season, as well as the total by volume and value for the July 2017 to March 2018 period.

Table: Australian wool exports by major destination country

% change on year earlier	March 2018		Season to March 2018		Total for 2017/18 season to March	
	Volume	Value	Volume	Value	mkg greasy	\$million
Total	-3%	+16%	+7%	+25%	258.1	2,856.9
China	-6%	+12%	+6%	+23%	201.1	2,187.8
India	+19%	+46%	-7%	-6%	13.7	134.8
Czech Republic	+24%	+44%	+15%	+33%	13.4	127.6
Italy	+16%	+47%	+5%	+44%	11.8	196.1
South Korea	-30%	-19%	-18%	-14%	2.6	21.5
Malaysia	+117%	+140%	+29%	+65%	2.2	22.3
Egypt	+17%	+17%	+28%	+55%	3.0	43.3
Taiwan	-37%	+5%	+12%	+32%	1.2	10.5
Others	+71%	+81%	+28%	+45%	9.1	113

With the EMI and a number of the Micron Price Guides at record levels, it is interesting to see how the value of Australian exports stacks up against the levels in the past 30 years. The **Chart of the Week** shows the trends in volume and value of Australian wool exports on a 12-month rolling basis. The volume of Australian exports remains at low at around 350 mkg greasy. It has remained in the 320-400 mkg range for the better part of the past 10 years. This is not a surprise as production has remained at around the same level for the past decade. The picture is very different when looking in value terms either in A\$ or US\$. As can be seen, the value of exports in A\$ has surged to heights not seen since 2003, while the US\$ value are up to the levels of 2011. They are both well below the peaks seen in 1988 when production was more than double the current levels.



The IWTO 2018 Congress starts on Monday with the Opening Session. I will chair the Market Intelligence session following the Opening Session. Key sessions will be Wool Trends for Future Markets and Sustainability through Wool Textiles on Tuesday. I will provide a report in next week's *Weekly Newsletter*.

INDUSTRY EVENTS

The **IWTO 2018 Congress** will be held in Hong Kong on 14th to 16th May 2018. Click [here](#) to register.

The **2018 AWIS Wool Week** will be held in Melbourne on 23rd & 24th August. The NCWSBA AGM will be held on Thursday, 23rd August 2018.

The **Nanjing Wool Market Conference** will be held on 11th to 13th September 2018 in Nanjing.

The **IWTO 2019 Congress** will be held in Venice on 9th to 11th April 2019.

WOOL SALES WEEK BEGINNING 13th MAY 2018 – week 26 (roster as at 10/05/2018)

<u>Sydney</u>	
Wed, 15 th May; Thurs, 16 th May	11,281 bales
<u>Melbourne</u>	
Wed, 15 th May; Thurs, 16 th May	19,251 bales
<u>Fremantle</u>	
Wed, 15 th May; Thurs, 16 th May	6,964 bales

Information in the Weekly Newsletter is intended to provide general information only and is not intended to constitute advice for a specific purpose.